



# California Public Utilities Commission

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## News Release

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### **PUC RECEIVES KEY RULING IN BANKRUPTCY TRIAL ON PLAN OF REORGANIZATION FOR PG&E**

U.S. Bankruptcy Court Judge Dennis Montali today denied a motion by Pacific Gas & Electric Company (PG&E), which had asked the court to rule that the Joint Plan of Reorganization for PG&E proposed by the California Public Utilities Commission (PUC) and the Official Committee of Unsecured Creditors (OCC) cannot be confirmed. In ruling in favor of the PUC and OCC, Judge Montali stated that they had carried their burden to establish that their plan, on its face, is financially feasible. Judge Montali noted that he was not yet making a finding that the Plan is confirmable.

In addition, Judge Montali stated that the PUC has authority to enter into a Reorganization Agreement with PG&E under the Plan that would be binding on the Commission and on future commissions under both state and federal law. Judge Montali noted that the Commission could validly conclude that the Reorganization Agreement furthers its regulatory mission, particularly because it is being entered into to provide assurance to the financial markets that the PUC won't "change the rules of the game" and because PG&E's bankruptcy plan would result in a far greater loss of the Commission's regulatory authority over PG&E.

"Judge Montali's determination that the Reorganization Agreement is valid under California law and would be binding on the Commission under both state and federal law is enormously important," said Gary Cohen, the PUC's General Counsel. "One of the key issues raised by the rating agencies and investors is whether the court would make a determination that the Reorganization Agreement is valid and binding on the PUC. Judge Montali has now made that determination."

In a related development, the PUC announced that it has received strong financial support for its Plan of Reorganization for PG&E. The capital markets support for the Commission's Plan

is based on tangible evidence from the major ratings agencies, and a “highly confident” letter from UBS/Warburg LLC reflecting the current market environment. In contrast, PG&E’s plan financing relies on year-old information and does not reflect the current market environment. In addition, the Commission has the strong endorsement and preference for the Commission’s plan over PG&E’s plan by the OCC of PG&E.

The Commission has received credit assessments from Standard and Poor’s and FitchRatings, two out of the three major credit rating agencies. Standard & Poor’s has provided the Commission and the OCC with a letter stating that “it is Standard & Poor’s credit assessment that the \$7.845 billion principal amount senior secured debt . . . exhibits indicia of marginal investment grade credit quality based upon our credit metrics,” subject to the assumptions and conditions set forth in the letter. FitchRatings separately expressed a view in its credit assessment that the senior securities to be issued under the Joint PUC/OCC Plan are expected to be rated in the “BBB” category, subject to the conditions and assumptions set forth in its letter.

“These letters from Standard & Poor’s and FitchRatings are significant indications that the Joint Plan is feasible and that it should be confirmed by the Bankruptcy Court. The Plan represents the quickest way by far for PG&E creditors to be repaid, and for the company to emerge from bankruptcy,” said Cohen. “One of PG&E’s main criticisms of our Plan is that these securities will not be investment grade. These credit assessments from Standard and Poor’s and FitchRatings indicate that they should be, if the conditions in the letters are satisfied. We believe that the conditions can be met, and that these securities will be investment grade when issued. Standard and Poor’s and the FitchRatings letters confirm that the PUC/OCC plan is feasible and workable in today’s restrictive energy markets.”

UBS Warburg LLC, the placement agent retained to obtain financing for the Commission/OCC Plan, has issued a letter stating that it is “highly confident” that this senior secured debt can be sold if it receives an investment grade rating, and has said that an additional \$1.9 billion in unsecured debt and preferred stock can be sold even if it receives speculative grade ratings.

“As one of the largest financial institutions in the world and with significant utility financing experience, the UBS letter is further recognition and validation from the capital markets themselves that the Commission’s plan is feasible,” Cohen said.

With respect to PG&E’s Plan, Cohen took issue with a press release issued by the company last week. “PG&E’s press release stated that ‘S&P has issued indicative credit ratings

on the PG&E plan, which found that each of the companies resulting from its reorganization plan would be investment grade,” noted Cohen. “This statement is false. S&P issued a letter to PG&E last January that said that its ‘preliminary rating’ was that the ‘senior unsecured debt obligations to be issued by each of the four companies are capable of achieving investment grade ratings....’ subject to some 22 assumptions and conditions set forth in the letter. These extremely contingent preliminary ratings are almost a year old, and do not reflect conditions in the energy market today.

“PG&E has stated that it will not go back to the rating agencies for a current assessment, but its rating agency letters are based on very stale and out-of-date market information. Since the time PG&E filed its own plan of reorganization, both market conditions and PG&E’s other businesses have suffered dramatically. PG&E’s own affiliate, the National Energy Group, is expected by many to file for its own Chapter 11 proceeding in the future, and is in restructuring discussions with its banks and other creditors,” Cohen said.

The hearing on the confirmation of the Joint PUC/OCC Plan continues in U.S. Bankruptcy Court.

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